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C O N F I D E N T I A L SECTION 1 OF 4 USNATO 0454

E.O. 11652: GDS, 12/31/80

TAGS: MASS, BEXP, MILI, NATO

SUBJECT: REPLACEMENT AIRCRAFT FOR F-104

REF: A) STATE 012937; B) USNATO 0403

SUMMARY: REPORTING FROM WASHINGTON AND THE FIELD HAS TOUCHED ON VARIOUS ELEMENTS OF THE QUESTION OF A FOLLOW-ON AIRCRAFT FOR PURCHASING REPLACEMENT AIRCRAFT IN THE LATE 1970'S, AND ARE CURRENTLY CONSIDERING ONE FRANCH AND THREE AMERICAN MODELS.

THE FOLLOWING IS USNATO'S PRELIMINARY ANALYSIS OF THE IMPORTANT FACTORS IN THE PROCUREMENT DECISIONS, INFLUENCES BEARING ON THOSE DECISIONS, AND POSSIBLE OUTCOMES OR RESULTS FROM THE PURCHASE OF AMERICAN OR A FRENCH FOLLOW-ON AIRCRAFT. THE ANALYSIS FOCUSES ON POLITICAL/MILITARY DEFENSE CAPABILITY, ECONOMIC/COMMERCIAL, AND ALLIANCE BURDENSARING CONSIDERATIONS. THE AIM IS TO SET FORTH IN AN ORDERLY FASHION ALL OF THE
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PRESENTLY DISCERNIBLE FACTORS BEARING ON THIS IMPORTANT FOREIGN POLICY QUESTION FOR THE US. COMMENTS AND GUIDANCE REQUESTED.
END SUMMARY

I. ESSENTIAL FACTORS

A. POLITICAL/MILITARY CONSIDERATIONS

POLITICAL FACTORS BEARING ON WHETHER FOUR COUNTRIES - BELGIUM, DENMARK, THE NETHERLANDS, AND NORWAY - ACQUIRE A FRENCH OR AN AMERICAN AIRCRAFT ILLUSTRATE THE ATLANTIC ALLIANCE VERSUS EUROPEAN COMMUNITY ISSUE. IMPERATIVES FOR ENHANCED ATLANTIC/US TIES LEAD TOWARD PURCHASE OF A US AIRCRAFT. "EUROPEAN IDENTITY" FACTORS, AS THE FRENCH ARGUE, REQUIRE EUROPEAN PURCHASE OF THE FRENCH AIRCRAFT.

FRANCE SEEKS TO INCREASE ITS INFLUENCE IN EUROPE AND LESSEN US INFLUENCE. IT ALSO PROPOSES ENHANCED EUROPEAN DEFENSE COOPERATION THROUGH THE WESTERN EUROPEAN UNION RATHER THAN THE NATO-CONNECTED EUROGROUP IN WHICH FRANCE DOES NOT PARTICIPATE.

B. DEFENSE CAPABILITY

1. MILITARY STANDARDIZATION

ACCORDING TO NATO-AGREED DEFINITIONS, THE MILITARY ASPECT OF STANDARDIZATION IS THE ONE "LEADING TO THE ACHIEVEMENT OF THE CLOSEST PRACTICAL COOPERATION AMONG FORCES" IN THE FIELD OF EQUIPMENT AND SUPPLIES. THIS PROCESS OF STANDARDIZATION CAN LEAD TO FOUR LEVELS OF ACHIEVEMENT:

A. IDENTITY OR COMMONALITY

B. INTEROPERABILITY - SYSTEMS WORK POSITIVELY TOGETHER

C. INTERCHANGEABILITY - COMPONENTS OR AMMUNITION ACROSS NATIONAL LINES.

D. COMPATIBILITY - NON-INTERFERENCE (DUE TO CONFIDENTIAL

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DIFFERENCES) WITH OPERATIONS.

E. CAPABILITY TO CROSS-SERVICE AIRCRAFT IS

A SUBSET OF ALL THE ABOVE ACHIEVEMENT LEVELS.

OBVIOUSLY THE MOST DESIRABLE LEVEL IS COMMONALITY -- AND FORTUNATELY, COMMONALITY IS ACHIEVABLE IN THE F-104 REPLACEMENT PROGRAM.

2. STATE OF US DECISION

A. AT PRESENT THE USG HAS NOT COMMITMENT TO PROCURE A LIGHTWEIGHT FIGHTER. THE PRESENT PROTOTYPE PROGRAM CALLS FOR AN

APPROXIMATE ONE-YEAR FLIGHT TEST PERIOD
FOR EACH OF THE TWO US PROTOTYPES, THE YF-16
(GENERAL DYNAMICS) AND THE YF-17 (NORTHROP).
THE YF-16 WAS ROLLED OUT DEC 13, 1973
AND HAS ALREADY BEEN SUBJECTED TO SOME
TESTING AT EDWARDS AFB. THE
YF-17 IS SCHEDULED FOR DELIVERY IN APRIL
1974 WITH A ONE-YEAR FLIGHT TEST PERIOD
STARTING LATE THIS SPRING. AT PRESENT
THIS IS PURELY A TECHNOLOGY PROGRAM AND
THERE IS NO PLAN TO SELECT EITHER AIRCRAFT
FOR PRODUCTION. IF THE DECISION WERE
MADE TO TURN THIS PROGRAM INTO A COMPETITION
FOR A PRODUCTION CONTRACT, WE COULD NOT
EXPECT A CHOICE OF AIRCRAFT UNTIL MID-1975.

B. AIRCRAFT UNDER CONSIDERATION BY NATO ALLIES
INCLUDE THE FOLLOWING:

(1) COBRA P-530 (A PLANNED FURTHER
DEVELOPMENT OF THE YF-17 EQUIPPED WITH
TWO GE YJ-101 ENGINES OF 15,000 LBS
THRUST EACH).

(2) GENERAL DYNAMICS 402 (A PLANNED FURTHER
DEVELOPMENT OF THE YF-16 EQUIPPED WITH
ONE P.W. F-100 ENGINE OF 25,000 LBS THRUST.

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(3) LOCKHEED LANCER - A NEW DESIGN BUT WITH
UTILIZATION, AT LEAST INITIALLY, OF THE
F-104 FRONT END. THIS DESIGN WAS A LOSER
IN THE COMPETITION WITH NORTHROP AND
GENERAL DYNAMICS FOR THE US LIGHTWEIGHT
FIGHTER CONTRACT AWARDS. (EQUIPPED
WITH ONE P.W. TF-30, A-100 ENGINE OF
25,000 LBS THRUST.

(4) MIRAGE SUPER F-1.

(5) SWEDISH VIGGEN.

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3. FLY TIME ON VARIOUS MODELS

WITH EXCEPTION OF THE YF-16, WHICH HAS BEEN
SUBJECTED TO A HIGH-SPEED TAXI RUN AND A SHORT
LIFT-OFF, TURN-AROUND FLIGHT, AND THE SWEDISH VIGGEN,
WHICH HAS BEEN AROUND FOR SEVERAL YEARS, THE OFFERED
MODELS HAVE NO FLIGHT TIME. THE MIRAGE SUPER F-1
INCLUDES THE SNECMA M-53 ENGINE (18,650 LBS THRUST)
AND THERE ARE NO KNOWN ORDERS, YET, FOR THIS VARIAT
OF THE F-1. THERE ARE ABOUT 200 ORDERS FOR THE
F-1 WITH THE SNECMA ATAR 09K-50 ENGINE (15,800 LBS
THRUST).

4. TECHNICAL EVALUATIONS

TECHNICAL EVALUATIONS CONDUCTED TO DATE BY THE
VARIOUS CUSTOMER NATIONS TEND TO FAVOR THE NORTHROP
COBRA P-530, BECAUSE OF EARLY SUBMISSION OF PROPOSALS.
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PUBLICITY, HOWEVER, ON GENERAL DYNAMICS' "YF-16 FOR EUEOPE"
STRESSES ADVANCED TECHNOLOGY, SIMPLICITY, LOW COST,
AND MAXIMUM USE OF CERTIFIED STANDARD COMPONENTS.
USG POSITION ON TECHNICAL COMPARISONS OF YF-16
VERSUS YF-17 IS UNKNOWN AND MAY NOT BE AVAILABLE
UNTIL FLIGHT TESTS ARE COMPLETED.

C. BURDENSARING

THE US HAS TOLD AT LEAST ONE OF ITS ALLIES
(NORWAY) THAT PURCHASE OF AN AMERICAN AIRCRAFT TO
REPLACE THE F-104 WOULD BE ACCOUNTABLE AS OFFSET TO OUR
MILITARY BOP DEFICIT. CURRENT ESTIMATES ARE THAT INITIAL
SALES TO BELGIUM, DENMARK, THE NETHERLANDS, AND NORWAY

WOULD AMOUNT TO \$2 TO \$3 BILLION OVER THE NEXT 10 TO 20 YEARS. THE NET DOLLAR INFLOW SHOULD BE AT LEAST \$2 BILLION, OR UP TO \$200 MILLION ANNUALLY. THE COMBINED US NET ADVERSE BALANCE ON MILITARY ACCOUNT FOR 1972 WITH BELGIUM, DENMARK, AND THE NETHERLANDS WAS \$15 MILLION (WITH NORWAY WE HAD A SURPLUS OF \$15.5 MILLION). THUS, THE DEFICIT OF THESE SMALLER ALLIES WOULD BE WHOLLY COVERED FOR MANY YEARS, BY PURCHASE OF A US AIRCRAFT, PLUS \$150-\$185 MILLION OF THE REMAINING US-NATO WIDE MILITARY BOP DEFICIT. THIS COULD RAISE ANNUAL ALLIED PROCUREMENT (EXCLUDING THE FRG) TO \$900 MILLION OR MORE, RATHER THAN THE \$750 MILLION WE ESTIMATE ON THE BASIS OF DPQ'S.

D. US ECONOMIC/COMMERCIAL INTEREST

THE SALE POTENTIAL OF \$2 TO \$3 BILLION RESULTING FROM PURCHASES BY BELGIUM, DENMARK, THE NETHERLANDS, AND NORWAY WOULD BE INCREASED VASTLY IF, AS IS LIKELY, OTHER ALLIES WITH A PRESENT OR FUTURE NEED FOR SIMILAR AIRCRAFT (PARTICULARLY FRG AND ITALY) FOLLOWED SUIT. EVENTUAL WORLD-WIDE SALES COULD REACH \$10 BILLION OR MORE.

UNEMPLOYMENT IN THE US AEROSPACE INDUSTRY, WOULD BE ALLEVIATED BY LARGE SCALE PRODUCTION OF A NEW MAJOR WEAPONS SYSTEMS.

II. INFLUENCE ON DECISIONS

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A. POLITICAL/MILITARY

-- EACH OF THE POTENTIAL PURCHASERS SEEKS TO RETAIN CLOSE TIES TO NATO AND THROUGH THE ALLIANCE TO THE US. THIS IS A STRONG POLITICAL FACTOR FAVORING THEIR PURCHASE OF US AIRCRAFT. IT IS IN THE GERMAN INTEREST TO ENCOURAGE THE FOUR TO "BUY AMERICAN" FOR POLITICAL REASONS CONNECTED WITH THE GERMAN REQUIREMENT TO KEEP THE US ENGAGED IN EUROPE, AS WELL AS FOR ECONOMIC AND BURDENSARING MOTIVES.

-- ON THE OTHER HAND, BELGIUM, DENMARK AND THE NETHERLANDS ARE EC MEMBERS AND SHARE AN INTEREST IN SEEKING A EUROPEAN "IDENTITY" AND SOLIDARITY. NORWAY, NOT A MEMBER OF THE NINE, NEEDS TO KEEP ITS LINES OPEN TO THIS CORE OF EUROPEAN COUNTRIES.

FRANCE CAN PLAY UPON THE DESIRE TO ENHANCE EUROPEAN "IDENTITY", AND CAN EVEN HINT THAT PURCHASE OF THE FRENCH AIRCRAFT WOULD ENCOURAGE THE GOF TO CLOSER MILITARY COOPERATION WITH THE ALLIANCE.

-- ANOTHER FACTOR WHICH COULD INFLUENCE PURCHASE DECISIONS

IS THE WEAK AND CHANGING NATURE OF EUROPEAN GOVTS.
FOR EXAMPLE, THE DEFENSE MINISTER OF THE BELGIAN GOVT
THAT HAS JUST RESIGNED FAVORED THE MIRAGE; HIS SUCCESSOR
MAY NOT.

B. DEFENSE CAPABILITY

1. IMPORTANCE TO US DECISION TO PARTICIPATE

A. IMPORTANT COST CONSIDERATIONS FOR OUR ALLIES
INCLUDE FULL DEVELOPMENT FROM PROTOTYPE TO
PRODUCTION MODEL, INITIAL PRODUCTION LINE
INVESTMENT AND START-UP COSTS, MUNITIONS --
CERTIFICATION COSTS AND THE LONG-TERM ASPECTS
OF LOGISTICAL SUPPORT -- REPAIR PARTS, ENGINEERING
CHANGE OR MODIFICATION INTRODUCTION, ETC.
IF THE US WERE TO MAKE A COMMITMENT TO DEVELOP
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THE PRODUCTION MODEL OF ONE OF THESE AIRCRAFT,
IT WOULD UNDERWRITE THE HIGHEST RANK PHASE IN THE
LIFE OF ANY WEAPON SYSTEM.

-- LATER RECOUPMENT BY THE US OF NON-RECURRING
COSTS SPREAD OVER A LARGE PRODUCTION RUN WOULD
POSE NO GREAT PROBLEMS, BUT THE RISK ASSOCIATED
WITH COMMITMENT TO HARD TOILING AND A PRODUCTION
LINE FOR A NEW AIRCRAFT IS NOT ATTRACTIVE TO ANY
ALLIED CUSTOMER.

-- A US COMMITMENT TO PRODUCTION WOULD ASSURE OUR
ALLIES OF PROBABLE LONGER RETENTION IN THE
INVENTORY AND A CERTAINTY OF REPAIR PARTS,
TECHNICAL ASSISTANCE, AND OTHER ATTRACTIVE
FEATURES OF US SALES PROGRAMS.

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B. DELAY IN EUROPEAN DECISIONS

-- BELGIUM AND THE NETHERLANDS, IN PARTICULAR,
FEEL A PRESSING NEED FOR A PROCUREMENT
DECISION THIS YEAR. A DELAY UNTIL 1975 TO
AWAIT A POSSIBLE US DECISION MAY NOT BE
ACCEPTABLE TO THESE NATIONS.

-- SHOULD THE NATIONS AGREE TO FORM A STEERING GROUP
OR CONSTITUTE A BOARD OF DIRECTORS TO MAKE AN
ULTIMATE NATO DECISIONS, SOME DELAY (PROBABLY
3-6 MONTHS MINIMUM) IS INHERENT IN SUCH A COURSE
OF ACTION. THIS POSSIBILITY IS UNDER STUDY BY
THE NATO INTERNATIONAL STAFF (DR GARDINER TUCKER),
AND THE SECGEN IS EXPECTED TO PRESENT
THE CASE FOR CONCERTED ACTION TO RESPECTIVE
MINISTERS OF DEFENSE THIS SPRING.

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C. BURDENSARING

-- ALL OF OUR ALLIES WANT THE US TO MAINTAIN ITS PRESENT
TROOP LEVELS IN EUROPE AND RECOGNIZE THAT AN IMMEDIATE
PROBLEM IS MEETING JACKSON-NUNN REQUIREMENTS. THEY ARE
RELUCTANT TO COMMIT THEMSELVES TO LONG-RANGE, MULTILATERAL
BUDENSHARING ARRANGEMENTS, AND THIS RELUCTANCE HAS BEEN
STRENGTHENED BY THE WEAKENING OF EUROPEAN ECONOMIES DUE
IN PART TO THE OIL CRISIS. PURCHASE OF AN AMERICAN
AIRCRAFT FOR F-104 REPLACEMENT SHOULD BE AN ATTRACTIVE
SOLUTION TO BURDENSARING FOR THE SMALLER ALLIES SINCE IT
WOULD INVOLVE NO INCREASE IN PLANNED MILITARY CAPITAL
OUTLAY.

-- THE FRG SHOULD HAVE AN INTEREST IN ENCOURAGING SMALLER
ALLIES TO TAKE ADVANTAGE OF THIS OPPORTUNITY TO INCREASE
PROCUREMENT IN THE US, THEREBY REDUCING THE PRESSURE ON BONN
TO COVER THE US - NATO WIDE MILITARY BOP DEFICIT.

D. ECONOMIC/COMMERCIAL INTEREST

-- CO-OPERATION AND OFFSET OFFERS ARE AN IMPORTANT CONSIDERATION FOR SOME PROSPECTIVE BUYERS, PARTICULARLY BELGIUM, BUT ARE NOT OF INTEREST TO OTHERS, SUCH AS NORWAY. IF UNEMPLOYMENT INCREASES IN EUROPE, AS IS POSSIBLE, SUCH OFFERS COULD BECOME OF MORE GENERAL INTEREST. OTHER INCENTIVES, SUCH AS CREDIT TERMS, WILL BE AN IMPORTANT CONSIDERATION FOR ALL PROSPECTIVE BUYERS.

-- OUR EUROPEAN ALLIES HAVE A LEGITIMATE INTEREST IN STIMULATING INDUSTRIAL DEVELOPMENT WITHIN THE EEC. ALL PROSPECTIVE PURCHASERS OF F-104 REPLACEMENT AIRCRAFT, EXCEPT NORWAY, HAVE EXPRESSED INTEREST IN DEVELOPMENT OF THE EUROPEAN AVIATION INDUSTRY. THEY SEE THE AEROSPACE INDUSTRY AS THE LEADING EDGE OF THE MOST ADVANCED TECHNOLOGY IN THIS FIELD IF IT IS TO COUNT AT ALL ECONOMICALLY. AT PRESENT, ONLY THE FRENCH HAVE THE TECHNOLOGY AND CAPACITY UPON WHICH A EUROPEAN AEROSPACE STRUCTURE

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COULD BE BUILT INDEPENDENT OF THE US.

-- AT THE SAME TIME, OUR ALLIES HAVE AN INTEREST IN THEIR NATIONAL AVIATION INDUSTRY BENEFITING FROM THE MOST ADVANCED TECHNOLOGY AVAILABLE AND BEING CAPABLE OF PRODUCING AT THE LOWEST UNIT COST. THIS WOULD MOST LIKELY BE THE CASE FROM LINKAGE WITH THE LARGE AND ADVANCED US AEROSPACE INDUSTRY.

III. POSSIBLE OUTCOMES

A. POLITICAL/MILITARY

-- PURCHASE OF A US AIRCRAFT WOULD STRENGTHEN POLITICAL SOLIDARITY OF THE ALLIANCE. THE SAME IS TRUE FOR TIES AT THE MILITARY LEVEL SINCE TRAINING, IN PARTICULAR, BRINGS THE PURCHASING COUNTRY'S PILOTS AND OTHER MILITARY OFFICERS INTO DIRECT CONTACT WITH THE MILITARY OFFICERS OF THE COUNTRY SUPPLYING THE AIRCRAFT.

-- PURCHASE OF THE FRENCH CANDIDATE WOULD MEAN DEPENDENCY ON THE COUNTRIES CONCERNED, AND THUS OF NATO, ON FRANCE, WHICH STANDS OUTSIDE THE NATO MILITARY STRUCTURE AND BY ITS OWN REPEATED STATEMENTS, CANNOT BE RELIED UPON IN AN ALLIANCE EMERGENCY. IN THE CASE OF BELGIUM, ITS AIRCRAFT INDUSTRY COULD BECOME LARGELY DEPENDENT UPON THAT OF FRANCE,

THUS INCREASING FRENCH POLITICAL INFLUENCE.

-- PURCHASE OF A US AIRCRAFT COULD HAVE POSITIVE
POLITICAL CONSEQUENCES FOR THE MAINTENANCE OF
US COMMITMENTS TO THE ALLIANCE. ON THE OTHER
HAND, PURCHASE OF THE FRENCH CANDIDATE COULD
HEIGHTEN US CONGRESSIONAL PRESSURES TO REMOVE
US FORCES FROM EUROPE AND WEAKEN ATLANTIC TIES.
CRITICS OF THE ADMINISTRATION'S POLICY TOWARD
EUROPE WOULD BE STRENGTHENED.

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B. DEFENSE CAPABILITY

1. ALTERNATE BAD CASES

A. ALLIES BUY MIRAGE SUPER F-1

-- ALTHOUGH IT IS UNCLEAR WHETHER THE ALLIES
WOULD ALL AGREE TO BUY THE MIRAGE SUPER
F-1, IT REMAINS A POSSIBILITY. THE ADVERSE EFFECT
OF SUCH A DECISION ON THE US CONGRESS IS
PREDICTABLE AND CONGRESSIONAL REACTION MAY
BE PRESUMED TO BE SIGNIFICANT WITH RESPECT
TO US VIEWS OF THE ALLIANCE, TROOP
REDUCTIONS, AND FURTHER ARMAMENTS
COOPERATIVE EFFORTS.

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-- A MORE LIKELY POSSIBILITY IS THE DECISION OF ONE NATION (BELGIUM) TO UNILATERALLY BUY THE MIRAGE, EITHER THE SUPER F-1 OR THE BASIC F-1 FOR WHICH THERE ARE ALREADY 200 OTHER ORDERS. THIS SORT OF DECISION WOULD DEVASTATE THE ALLIANCE'S GOALS OF ACHIEVING MAXIMUM STANDARDIZATION OF FUTURE AIRCRAFT AND PLACE AT LEAST ONE ALLY IN THE POSITION OF BEING DEPENDENT ON A NATION WHICH IS NOT A PART OF THE NATO MILITARY STRUCTURE.

B. ALLIES BUY ONE US PLANE AND US AIR FORCE ANOTHER

-- SHOULD THE YF-16 PROVE SUPERIOR IN FLIGHT TEST (1974-1975), BUT THE NATO ALLIES SHOULD CHOOSE TO BUY THE COBRA P-530
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(MID-1974), WE WOULD FIND OURSELVES IN AN UNFORTUNATE SITUATION.

-- SHOULD US AIR FORCE PROCEED TO PRODUCTION WITH GENERAL DYNAMIC'S FY-16 AND NATO GO AHEAD WITH THE NORTHROP COBRA BUY US WOULD SUCCEED IN BOOSTING TWO US AIRCRAFT COMPANIES BUT AT THE EXPENSE OF INCREASED PROCUREMENT COSTS AND PROBLEMS ASSOCIATED WITH A CONSIDERABLY LOWERED LEVEL OF STANDARDIZATION WITHIN NATO.

C. ALLIES BUY DIFFERENT MODEL AIRCRAFT

-- POLITICAL/ECONOMIC FACTORS COULD CONCEIVABLY SWAY ALLIES INTO THE POSITION OF BELGIUM BUYING FRENCH MIRAGE, THE NETHERLANDS BUYING EITHER NORTHROP COBRA OR SWEDISH VIGGEN, AND ITALY BUYING LOCKHEED LANCER. IF THE US WOULD THEN SELECT GENERAL DYNAMIC'S YF-16, THE TRAGEDY WOULD BE COMPLETE. NATO WOULD HAVE A 1980 FIGHTER FORCE COMPOSED OF A WIDE VARIETY OF SIMILAR BUT NON-STANDARD FIGHTERS WITH HIGHER PROCUREMENT COSTS, HIGHER OPERATING COSTS, LOWER COMBAT CAPABILITY AND IN-

CREASED DIFFICULTIES IN CROSS-SERVICING.

2. DECISION FOR ONE US AIRCRAFT

-- IN VIEW OF AN EARLY START ON THE PART OF NORTHROP, ODDS AT THIS TIME SEEM TO FAVOR THE SELECTION OF THE COBRA P-530 OVER OTHER US COMPETITOR, WITH THE POSSIBLE EXCEPTION OF ITALY'S LINK WITH THE LOCKHEED LANCER.

-- THIS SITUATION IS SLIGHTLY INCONGRUOUS WITH GENERAL DYNAMICS ALREADY FLYING ITS YF-16
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WHILE NORTHROP HAS YET TO FLY EITHER THE YF-17 OR THE COBRA. AS STATED BY GENERAL GLASSER OF GENERAL DYNAMICS, "GENERAL DYNAMICS WAS BUILDING AIRPLANES WHILE OTHERS (NORTHROP WERE BUSY SELLING." ALLIED SELECTION (OTHER THAN ITALY) OF THE LOCKHEED LANCER SEEMS UNLIKELY.

C. BURDENSARING

-- DECISIONS TO PURCHASE AMERICAN AIRCRAFT COULD BE DECISIVE FOR THE BURDENSARING PROBLEM FOR YEARS TO COME. THE PROVISIONS OF JACKSON-NUNN COULD BE MET WITH AN INCREASE IN THE PRESENT FRG OFFER OF ROUGHLY \$200 MILLION PER YEAR. SUCH A DECISION COULD ALSO HELP TO FORESTALL OTHER MOVES FOR US TROOP REDUCTION INITIATIVES IN CONGRESS.

-- CONVERSELY, DECISIONS BY OUR ALLIES TO SHIFT WHAT HAS BEEN AN AMERICAN MARKET TO FRANCE WOULD STIMULATE GREATER PRESSURE FOR TROOP REDUCTIONS AND /OR FULL OFFSET TO US MILITARY BOP AND BUDGETARY EXPENDITURES.

D. ECONOMIC/COMMERCIAL INTEREST

-- DECISIONS TO PURCHASE A FRENCH RATHER THAN AMERICAN AIRCRAFT WOULD MEAN THE LOSS NOT ONLY OF A LARGE AND IMPORTANT AIRCRAFT MARKET, BUT RELATED MARKETS FOR COMPONENTS. THE SHIFT IN EMPHASIS FROM THE US TO FRANCE FOR TRAINING AND REPLACEMENT PARTS COULD HAVE A SPILL-OVER INTO OTHER INDUSTRIES, PARTICULARLY IN THE DEFENSE SECTOR.

-- DECISIONS TO PURCHASE A FRENCH OR A MIX OF AIRCRAFT WOULD INCREASE THE UNIT COST OF PRODUCTION.

TION, NOT ONLY FOR THE EUROPEANS BUT FOR THE
AIRCRAFT EVENTUALLY SELECTED BY THE US AIR
FORCE. THE GREATER THE MIX OF AIRCRAFT, THE
HIGHER THE UNIT COST WOULD BE FOR ALL.
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-- PURCHASE OF A US AIRCRAFT BY ALL ALLIES RE-
PLACING THE F-104 WOULD MINIMIZE THE UNIT
COST, PARTICULARLY IF IT WERE THE SAME LIGHT
AIRCRAFT SELECTED BY THE US AIR FORCE.

IV. ACTION REQUESTED:

MISSION INVITES COMMENTS OF THE DEPT AND OTHER
ADDRESSEES. TAKING INTO ACCOUNT STATE 12937 (REF A),
REPORTING FROM THE FIELD THUS FAR AND THIS ANALYSIS,
WE REQUEST WASHINGTON GUIDANCE. RUMSFELD

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To: STATE
SECDEF
DEPT OF COMMERCE
TREAS DEPT INFO ALL NATO CAPITALS
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